

VILLAGE OF EASTLAKE
Manistee County, Michigan

FINANCIAL REPORT WITH
SUPPLEMENTARY INFORMATION

Year Ended June 30, 2006

AUDITING PROCEDURES REPORT

Issue under P.A. 2 of 1968, as amended. Filing is mandatory.

Local Government Type <input type="checkbox"/> City <input type="checkbox"/> Township <input checked="" type="checkbox"/> Village <input type="checkbox"/> Other		Local Government Name Village of Eastlake	County Manistee
Audit Date June 30, 2006	Opinion Date October 16, 2006	Date Accountant Report Submitted to State: December 18, 2006	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- ☐ yes ☒ no 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.
- ☐ yes ☒ no 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).
- ☒ yes ☐ no 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).
- ☐ yes ☒ no 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.
- ☐ yes ☒ no 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]).
- ☐ yes ☒ no 6. The local unit has been delinquent distributing tax revenues that were collected for another taxing unit.
- ☐ yes ☒ no 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during they year).
- ☐ yes ☒ no 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).
- ☐ yes ☒ no 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).

We have enclosed the following:	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	X		
Reports on individual federal financial assistance programs (program audits).			X
Single Audit Reports (ASLGU).			X

Certified Public Accountant (Firm Name) Campbell, Kusterer & Co., P.C.			
Street Address 512 N. Lincoln, Suite 100, P.O. Box 686	City Bay City	State MI	Zip 48707
Accountant Signature Campbell, Kusterer & Co., P.C.			

VILLAGE OF EASTLAKE
Manistee County, Michigan

TABLE OF CONTENTS

	<u>Page</u>
Independent Auditors' Report	1
Management's Discussion and Analysis	2-4
Basic Financial Statements:	
Government-wide Financial Statements:	
Government-wide Statement of Net Assets	5
Government-wide Statement of Activities	6
Fund Financial Statements:	
Governmental Funds:	
Balance Sheet	7
Reconciliation of Balance Sheet of Governmental Fund to the Statement of Net Assets	8
Statement of Revenues, Expenditures, and Changes in Fund Balances	9
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balance of Governmental Fund to the Statement of Activities	10
Business Type Funds:	
Statement of Net Assets	11
Statement of Revenues, Expenditures and Changes in Net Assets	12
Statement of Cash Flows	13
Notes to Financial Statements	14-20
Required Supplemental Information:	
Budgetary Comparison Schedule – General Fund	21
Budgetary Comparison Schedule – Major Street Fund	22
Budgetary Comparison Schedule – Local Street Fund	23
Other Supporting Information:	
General Fund Expenditures by Detailed Account	24

CAMPBELL, KUSTERER & CO., P.C.

CERTIFIED PUBLIC ACCOUNTANTS

MARK J. CAMPBELL, CPA
KENNETH P. KUSTERER, CPA

512 N. LINCOLN AVE. - SUITE 100
P.O. BOX 686
BAY CITY, MICHIGAN 48707

TEL (989) 894-1040
FAX (989) 894-5494

INDEPENDENT AUDITOR'S REPORT

October 16, 2006

To the Village Council
Village of Eastlake
Manistee County, Michigan

We have audited the accompanying financial statements of the governmental activities and each major fund of Village of Eastlake, Manistee County, Michigan as of and for the year ended June 30, 2006, which collectively comprise the Village's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Village of Eastlake's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, and each major fund of the Village of Eastlake, Manistee County, Michigan as of June 30, 2006, and the respective changes in financial position and cash flows, where applicable, thereof for the year ended in conformity with accounting principles generally accepted in the United States of America.

The Management's Discussion and Analysis and budgetary comparison information listed in the table of contents are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management, regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the Village's basic financial statements. The other supporting information described in the accompanying table of contents is presented for the purpose of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied by us in the audit of the basic financial statements and, in our opinion, it is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Campbell, Kusterer & Co., P.C.
CAMPBELL, KUSTERER & CO., P.C.
Certified Public Accountants

VILLAGE OF EASTLAKE
Manistee County, Michigan

MANAGEMENT'S DISCUSSION AND ANALYSIS
For the year ended June 30, 2006

The Management's Discussion and Analysis report of the Village of Eastlake covers the Village's financial performance during the year ended June 30, 2006.

FINANCIAL HIGHLIGHTS

The Village's net assets decreased by \$81,110.59.

The tax base increased from the previous year.

OVERVIEW OF FINANCIAL STATEMENTS

This annual report consists of three parts, management's discussion and analysis, the basic financial statements and required supplementary information. The basic financial statements include two different kinds of statements that present different views of the Village and the notes to the financial statements.

The first two statements are entity-wide financial statements and provide both long and short-term information about our overall financial status. These statements present government activities.

The remaining statements are fund financial statements, which focus on individual parts of the Village in more detail.

The notes to the financial statements explain some of the information in the statements and provide more detailed data.

Required supplementary information further explains and supports the financial statement information with budgetary comparisons.

ENTITY-WIDE FINANCIAL STATEMENTS

The entity-wide statements report information about the Village as a whole using accounting methods used by private companies. The statement of net assets includes all of the Village's assets and liabilities. The statement of activities records all of the current year revenues and expenses regardless of when received or paid.

The two entity-wide statements report net assets and how they have changed. Net assets are the difference between the entity's assets and liabilities and this is one method to measure the entity's financial health or position.

Over time increases/decreases in the entity's net assets are an indicator of whether financial position is improving or deteriorating.

To assess overall health of the entity you may also have to consider additional factors such as tax base changes, facility conditions and personnel changes.

All of the activities of the Village are reported as governmental and business type activities. The governmental activities include the General Fund, the Major Street Fund and the Local Street Fund. The business type activities include the Park and Launch Fund.

VILLAGE OF EASTLAKE
Manistee County, Michigan

MANAGEMENT'S DISCUSSION AND ANALYSIS
For the year ended June 30, 2006

FUND FINANCIAL STATEMENTS

The fund financial statements provide more detailed information about the Village's funds, focusing on significant (major) funds not the Village as a whole. Funds are used to account for specific activities or funding sources. Some funds are required by law or bond covenants. The Village Council also may create them. Funds are established to account for funding and spending of specific financial resources and to show proper expenditures of those resources.

The Village has the following types of funds:

General Fund: This fund is used to record all activities of the Village not required to be recorded in a separate fund. This would include revenues and expenditures from building and grounds, legislative, administrative, elections, fire department and department of public works. This fund also contains the majority of the Village's investments which is in certificates of deposit. A savings account is also contained in this fund. Major revenue comes from property taxes, the State of Michigan in the form of Sales tax revenue and equipment rental from the Major and Local streets.

Major Street Fund: This fund is used to record revenues and expenses for the Major streets located within the Village. The major source of revenue comes from the State of Michigan in the form of gas and weight taxes. The fund also includes an initial investment in a certificate of deposit of \$10,000.00. The major expense for this fund is equipment rental for street repair and snow removal.

Local Street Fund: This fund is used to record revenues and expenses for local streets. The major source of revenue comes from the State of Michigan in the form of gas and weight taxes. The major expense for this fund is equipment rental for street repair and snow removal.

Park and Launch Fund: This fund is a business type fund, whereas the Village leases the property from the Department of Natural Resources. The fund is used to record revenues and expenses for the Eastlake Village Park and Launch. The main source of revenue for this fund comes from camp and launch fees charged. The expenses incurred are for general repair and maintenance of the grounds. Camp fees were raised during the fiscal year for the first time in many years to help cover expenses.

FINANCIAL ANALYSIS OF THE VILLAGE AS A WHOLE

For the fiscal year ended June 30, 2006, net assets of the Village decreased by \$81,110.59 to \$494,634.98.

FINANCIAL ANALYSIS OF THE VILLAGE'S FUNDS

For the fiscal year ended June 30, 2006, the fund balance of the General Fund decreased by \$43,213.12 to \$154,542.48, the fund balance of the Major Street Fund decreased by \$36,628.32 to \$31,188.83, the fund balance of the Local Street Fund increased by \$568.84 to \$56,775.22 and the net assets of the Park and Launch Fund decreased by \$14,357.24 to \$10,578.75.

CAPITAL ASSET AND LONG-TERM DEBT ACTIVITY

Capital Assets:

New capital assets totaled \$140,615.87.

Long-Term Debt:

The Village paid \$13,967.17 in principal on long-term debt.

VILLAGE OF EASTLAKE
Manistee County, Michigan

MANAGEMENT'S DISCUSSION AND ANALYSIS
For the year ended June 30, 2006

KNOWN FACTORS AFFECTING FUTURE OPERATIONS

The Village plans for a future addition to the Maintenance facilities for the storage of sand/salt for winter maintenance due to the relocation of the County Road Commission. Cost of the project is still in the planning stages and funds to finance the project will most likely be requested from the Little River Band of Ottawa Indians Revenue Sharing Board with the Village matching a portion of the request. The Village also maintains a five year plan for both major and local road improvements.

CONTACTING THE VILLAGE'S MANAGEMENT

This financial report is designed to provide our taxpayers with a general overview of the Village's finances and to demonstrate the Village's accountability for the revenues it receives. If you have any questions regarding this report, please contact Village President, Donald McIntyre at the Village office during the hours of 9:00 a.m. to 3:00 p.m., Monday through Friday.

VILLAGE OF EASTLAKE
Manistee County, Michigan

GOVERNMENT-WIDE STATEMENT OF NET ASSETS
June 30, 2006

	<u>Governmental Activities</u>	<u>Business Type Activities</u>	<u>Total</u>
ASSETS:			
CURRENT ASSETS:			
Cash in bank	251 780 02	13 762 37	265 542 39
Due from State of Michigan	9 085 90	-	9 085 90
Internal balances	<u>10 424 60</u>	<u>(10 424 60)</u>	<u>-</u>
Total Current Assets	<u>271 290 52</u>	<u>3 337 77</u>	<u>274 628 29</u>
NONCURRENT ASSETS:			
Capital Assets	536 058 59	28 720 98	564 779 57
Less: Accumulated Depreciation	<u>(198 424 19)</u>	<u>(21 480 00)</u>	<u>(219 904 19)</u>
Total Noncurrent Assets	<u>337 634 40</u>	<u>7 240 98</u>	<u>344 875 38</u>
TOTAL ASSETS	<u>608 924 92</u>	<u>10 578 75</u>	<u>619 503 67</u>
LIABILITIES AND NET ASSETS:			
LIABILITIES:			
CURRENT LIABILITIES	<u>28 783 99</u>	<u>-</u>	<u>28 783 99</u>
Total Current Liabilities	<u>28 783 99</u>	<u>-</u>	<u>28 783 99</u>
LONG-TERM LIABILITIES:			
Note payable	<u>96 084 70</u>	<u>-</u>	<u>96 084 70</u>
Total long-term liabilities	<u>96 084 70</u>	<u>-</u>	<u>96 084 70</u>
TOTAL LIABILITIES	<u>124 868 69</u>	<u>-</u>	<u>124 868 69</u>
NET ASSETS:			
Invested in Capital Assets, Net of Related Debt	241 549 70	7 240 98	248 790 68
Unrestricted	<u>242 506 53</u>	<u>3 337 77</u>	<u>245 844 30</u>
Total Net Assets	<u>484 056 23</u>	<u>10 578 75</u>	<u>494 634 98</u>
TOTAL LIABILITIES AND NET ASSETS	<u>608 924 92</u>	<u>10 578 75</u>	<u>619 503 67</u>

The accompanying notes are an integral part of these financial statements.

VILLAGE OF EASTLAKE
Manistee County, Michigan

GOVERNMENT-WIDE STATEMENT OF ACTIVITIES
Year ended June 30, 2006

	<u>Expenses</u>	<u>Program Revenue</u>	<u>Governmental Activities Net (Expense) Revenue and Changes in Net Assets</u>
FUNCTIONS/PROGRAMS			
Governmental Activities:			
Legislative	3 270 00	-	(3 270 00)
General government	25 225 08	1 338 00	(23 887 08)
Public safety	33 906 59	-	(33 906 59)
Public works	166 783 33	25 601 45	(141 519 88)
Other	22 291 16	-	(22 291 16)
Total Governmental Activities	<u>251 476 16</u>	<u>26 601 45</u>	<u>(224 874 71)</u>
Business Type Activities:			
Recreation and culture	25 897 24	11 540 00	-
Total Business Type Activities	<u>25 897 24</u>	<u>11 540 00</u>	<u>-</u>
Total Government	<u>277 373 40</u>	<u>38 141 45</u>	<u>(224 874 71)</u>
General Revenues:			
Property taxes			35 434 05
State revenue sharing			95 029 16
Interest			3 734 22
Miscellaneous			23 923 93
Total General Revenues			<u>158 121 36</u>
Change in net assets			(66 753 35)
Net assets, beginning of year			<u>550 809 58</u>
Net Assets, End of Year			<u>484 056 23</u>

The accompanying notes are an integral part of these financial statements.

Business Type Activities	Total
Net (Expense) Revenue and Changes in Net Assets	Net (Expense) Revenue and Changes in Net Assets
-	(3 270 00)
-	(23 887 08)
-	(33 906 59)
-	(141 519 88)
-	(22 291 16)
-	(224 874 71)
(14 357 24)	(14 357 24)
(14 357 24)	(14 357 24)
(14 357 24)	(239 231 95)
-	35 434 05
-	95 029 16
-	3 734 22
-	23 923 93
-	158 121 36
(14 357 24)	(81 110 59)
24 935 99	575 745 57
10 578 75	494 634 98

VILLAGE OF EASTLAKE
Manistee County, Michigan

BALANCE SHEET – GOVERNMENTAL FUNDS
June 30, 2006

	<u>General</u>	<u>Major Street</u>	<u>Local Street</u>	<u>Total</u>
<u>Assets</u>				
Cash in bank	172 901 87	26 943 54	51 934 61	251 780 02
Due from State of Michigan	-	6 006 36	3 079 54	9 085 90
Due from other funds	<u>10 424 60</u>	<u>-</u>	<u>1 761 07</u>	<u>12 185 67</u>
Total Assets	<u>183 326 47</u>	<u>32 949 90</u>	<u>56 775 22</u>	<u>273 051 59</u>
<u>Liabilities and Fund Equity</u>				
Liabilities:				
Accounts payable	28 783 99	-	-	28 783 99
Due to other funds	<u>-</u>	<u>1 761 07</u>	<u>-</u>	<u>1 761 07</u>
Total liabilities	<u>28 783 99</u>	<u>1 761 07</u>	<u>-</u>	<u>30 545 06</u>
Fund equity:				
Fund balances:				
Unreserved:				
Undesignated	<u>154 542 48</u>	<u>31 188 83</u>	<u>56 775 22</u>	<u>242 506 53</u>
Total fund equity	<u>154 542 48</u>	<u>31 188 83</u>	<u>56 775 22</u>	<u>242 506 53</u>
Total Liabilities and Fund Equity	<u>183 326 47</u>	<u>32 949 90</u>	<u>56 775 22</u>	<u>273 051 59</u>

The accompanying notes are an integral part of these financial statements.

VILLAGE OF EASTLAKE
Manistee County, Michigan

RECONCILIATION OF BALANCE SHEET OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF NET ASSETS
June 30, 2006

TOTAL FUND BALANCES – GOVERNMENTAL FUNDS	242 506 53
Amounts reported for governmental activities in the statement of net assets are different because –	
Capital assets used in governmental activities are not financial resources and therefore are not reported in the governmental funds balance sheet:	
Capital assets at cost	536 058 59
Accumulated depreciation	(198 424 19)
Long-term debt liabilities are not due and payable in the current period and therefore are not reported in the governmental funds:	
Note payable	<u>(96 084 70)</u>
TOTAL NET ASSETS – GOVERNMENTAL ACTIVITIES	<u>484 056 23</u>

The accompanying notes are an integral part of these financial statements.

VILLAGE OF EASTLAKE
Manistee County, Michigan

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES –
GOVERNMENTAL FUNDS
Year ended June 30, 2006

	<u>General</u>	<u>Major Street</u>	<u>Local Street</u>	<u>Total</u>
Revenues:				
Property taxes	35 434 05	-	-	35 434 05
Permits	313 00	-	-	313 00
State revenue sharing	41 316 25	36 655 28	17 057 63	95 029 16
Charges for services	25 263 45	-	-	25 263 45
Rent	1 025 00	-	-	1 025 00
Interest	3 418 09	316 13	-	3 734 22
Miscellaneous	<u>23 923 93</u>	<u>-</u>	<u>-</u>	<u>23 923 93</u>
Total revenues	<u>130 693 77</u>	<u>36 971 41</u>	<u>17 057 63</u>	<u>184 722 81</u>
Expenditures:				
Legislative:				
Village Council	3 270 00	-	-	3 270 00
General government:				
President	2 860 00	-	-	2 860 00
Elections	596 98	-	-	596 98
Clerk	200 00	-	-	200 00
Treasurer	400 00	-	-	400 00
Village hall and grounds	21 168 10	-	-	21 168 10
Public safety:				
Fire protection	15 590 31	-	-	15 590 31
Liquor law enforcement	384 80	-	-	384 80
Public works:				
Department of Public Works	32 686 59	-	-	32 686 59
Street lighting	7 572 73	-	-	7 572 73
Highways and streets	18 902 43	64 435 91	25 652 61	108 990 95
Sanitation	3 452 62	-	-	3 452 62
Other:				
Insurance	16 882 79	-	-	16 882 79
Payroll taxes	5 408 37	-	-	5 408 37
Capital outlay	140 615 87	-	-	140 615 87
Debt service	<u>13 967 17</u>	<u>-</u>	<u>-</u>	<u>13 967 17</u>
Total expenditures	<u>283 958 76</u>	<u>64 435 91</u>	<u>25 652 61</u>	<u>374 047 28</u>
Excess (deficiency) of revenues over expenditures	<u>(153 264 99)</u>	<u>(27 464 50)</u>	<u>(8 594 98)</u>	<u>(189 324 47)</u>
Other financing sources (uses):				
Loan proceeds	110 051 87	-	-	110 051 87
Operating transfers in	-	-	9 163 82	9 163 82
Operating transfers out	-	(9 163 82)	-	(9 163 82)
Total other financing sources (uses)	<u>110 051 87</u>	<u>(9 163 82)</u>	<u>9 163 82</u>	<u>110 051 87</u>
Excess (deficiency) of revenues and other sources over expenditures and other uses	(43 213 12)	(36 628 32)	568 84	(79 272 60)
Fund balances, July 1	<u>197 755 60</u>	<u>67 817 15</u>	<u>56 206 38</u>	<u>321 779 13</u>
Fund Balances, June 30	<u>154 542 48</u>	<u>31 188 83</u>	<u>56 775 22</u>	<u>242 506 53</u>

The accompanying notes are an integral part of these financial statements.

VILLAGE OF EASTLAKE
Manistee County, Michigan

RECONCILIATION OF THE STATEMENT OF REVENUE, EXPENDITURES AND CHANGES IN
FUND BALANCE OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES

Year ended June 30, 2006

NET CHANGE IN FUND BALANCES – TOTAL GOVERNMENTAL FUNDS (79 272 60)

Amounts reported for governmental activities in the Statement of Activities are different because:

Governmental funds report capital outlays as expenditures; in the Statement of Activities,
these costs are allocated over their estimated useful lives as depreciation

Depreciation Expense	(32 011 92)
Capital Outlay	140 615 87

Note payable proceeds provide current financial resources to governmental funds,
but issuing debt increases long-term liabilities in the statement of net assets.

Proceeds from note payable	(110 051 87)
----------------------------	--------------

Repayment of debt principal is an expenditure in the governmental funds, the
repayment does not have an effect in the statement of activities but does
reduce the debt balance in the statement of net assets.

Principal payments on long-term debt	<u>13 967 17</u>
--------------------------------------	------------------

CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES	<u><u>(66 753 35)</u></u>
---	---------------------------

The accompanying notes are an integral part of these financial statements.

VILLAGE OF EASTLAKE
Manistee County, Michigan

STATEMENT OF NET ASSETS – BUSINESS TYPE FUNDS

June 30, 2006

	<u>Park and Launch Fund</u>
ASSETS:	
CURRENT ASSETS:	
Cash in bank	<u>13 767 37</u>
Total Current Assets	<u>13 767 37</u>
NONCURRENT ASSETS:	
Capital Assets	28 720 98
Less: Accumulated Depreciation	<u>(21 480 00)</u>
Total Noncurrent Assets	<u>7 240 98</u>
TOTAL ASSETS	<u>21 003 35</u>
LIABILITIES AND NET ASSETS:	
LIABILITIES:	
CURRENT LIABILITIES:	
Due to other funds	<u>10 424 60</u>
Total Current Liabilities	<u>10 424 60</u>
NET ASSETS:	
Invested in Capital Assets, Net of Related Debt	7 240 98
Unrestricted	<u>3 337 77</u>
Total Net Assets	<u>10 578 75</u>
TOTAL LIABILITIES AND NET ASSETS	<u>21 003 35</u>

The accompanying notes are an integral part of these financial statements.

VILLAGE OF EASTLAKE
Manistee County, Michigan

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS -
BUSINESS TYPE FUNDS
Year ended June 30, 2006

	<u>Park and Launch Fund</u>
OPERATING REVENUES:	
Charges for Services:	
Service charges	<u>11 540 00</u>
Total Operating Revenues	<u>11 540 00</u>
OPERATING EXPENSES:	
Salaries and wages	10 424 60
Operating supplies	4 126 51
Professional services	1 157 98
Utilities	581 90
Repairs and maintenance	<u>7 753 25</u>
Total Operating Expenses	<u>24 044 24</u>
Operating Income (Loss) before depreciation	<u>(12 504 24)</u>
Less: Depreciation	<u>(1 853 00)</u>
Change in net assets	(14 357 24)
Net assets, beginning of year	<u>24 935 99</u>
Net Assets, End of Year	<u><u>10 578 75</u></u>

The accompanying notes are an integral part of these financial statements.

VILLAGE OF EASTLAKE
Manistee County, Michigan

STATEMENT OF CASH FLOWS – BUSINESS TYPE FUNDS
Year ended June 30, 2006

	<u>Park and Launch Fund</u>
CASH FLOWS FROM OPERATING ACTIVITIES:	
Cash received from customers	11 540 00
Cash payments to suppliers for goods and services	(13 619 64)
Cash payments to employees for services	<u>(10 424 60)</u>
Net cash provided (used) by operating activities	<u>(12 504 24)</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:	
Net borrowings (repayments) with other funds	<u>10 424 60</u>
Net cash provided (used) for noncapital and related financing activities	<u>10 424 60</u>
Net increase (decrease) in cash	(2 079 64)
Cash beginning of year	<u>15 842 01</u>
Cash End of Year	<u><u>13 762 37</u></u>
RECONCILIATION OF INCOME (LOSS) FROM OPERATIONS TO NET CASH PROVIDED BY OPERATING ACTIVITIES:	
Operating income (loss)	(14 357 24)
Depreciation	<u>1 853 00</u>
Net Cash Provided (Used) in Operating Activities	<u><u>(12 504 24)</u></u>

The accompanying notes are an integral part of these financial statements.

VILLAGE OF EASTLAKE
Manistee County, Michigan

NOTES TO FINANCIAL STATEMENTS

June 30, 2006

Note 1 – Summary of Significant Accounting Policies

The accounting policies of the Village of Eastlake, Manistee County, Michigan, conform to generally accepted accounting principles as applicable to governmental units.

Reporting Entity

The financial statements of the Village contain all the Village funds that are controlled by or dependent on the Village's executive or legislative branches.

The reporting entity is the Village of Eastlake. The Village is governed by an elected Village Council. As required by generally accepted accounting principles, these financial statements present the Village as the primary government.

Government-Wide and Fund Financial Statements

The government-wide financial statements, (the Statement of Net Assets and the Statement of Changes in Net Assets) report information on all of the non-fiduciary activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, normally supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. All the Village's government-wide activities are considered governmental activities.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include: (1) charges to customers or applicants who purchase, use or directly benefit from goods, services or privileges provided by a given function; and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Taxes, intergovernmental payments and other items not properly included among program revenues are reported as general revenue.

Major individual governmental funds are reported as separate columns in the fund financial statements.

Measurement Focus, Basis of Accounting and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met. When an expense is incurred for purposes for which both restricted and unrestricted net assets are available, restricted resources are applied first.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, expenditures relating to compensated absences, and claims and judgments are recorded only when payment is due.

VILLAGE OF EASTLAKE
Manistee County, Michigan

NOTES TO FINANCIAL STATEMENTS
June 30, 2006

Note 1 – Summary of Significant Accounting Policies (continued)

Governmental Funds

General Fund

This fund is used to account for all financial transactions except those required to be accounted for in another fund. The fund includes the general operating expenditures of the local unit. Revenues are derived primarily from property taxes, state and federal distributions, grants, and other intergovernmental revenues.

Special Revenue Funds

These funds are used to account for specific governmental revenues requiring separate accounting because of legal or regulatory provisions or administrative action.

Proprietary Funds

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the Water and Sewer enterprise fund are charges to customers for services. The enterprise fund also recognizes as operating revenues the tap fees intended to recover the cost of connecting new customers to the system. Operating expenses for the enterprise fund include the cost of services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

Assets, Liabilities and Net Assets or Equity

Bank deposits and investments – Cash and cash equivalent investments include cash on hand, demand deposits, certificates of deposit and short-term investments with a maturity of three months or less when acquired. Investments are stated at fair value.

Receivables

Receivables have been recognized for all significant amounts due to the Village. Allowances for uncollectible accounts have not been provided for in that collection is not considered doubtful and any uncollected amount would be immaterial.

Inventories

Inventories of supplies are considered to be immaterial and are not recorded.

Property Taxes

Property taxes and other revenue that are both measurable and available for use to finance operations are recorded as revenue when earned.

Properties are assessed as of December 31 and the related property taxes become a lien on December 1 of the following year. These taxes are due on September 14 with the final collection date of September 30 before they are added to the county tax rolls. The Village 2005 tax roll millage rate was 4.50 mills, and the taxable value was \$7,874,610.00.

VILLAGE OF EASTLAKE
Manistee County, Michigan

NOTES TO FINANCIAL STATEMENTS

June 30, 2006

Note 1 – Summary of Significant Accounting Policies (continued)

Capital Assets

Capital assets are defined by the Village as assets with an initial cost of more than \$1,000.00 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost. Donated assets are reported at estimated fair market value at the date of donation. Additions, improvements and other capital outlays that significantly extend the useful life of an asset are capitalized. Other costs incurred for repairs and maintenance are expensed as incurred. Depreciation on all assets is provided on the straight-line basis over the following estimated useful lives:

Buildings, additions and improvements	50 years
Furniture and equipment	5-25 years

Compensated Absences (Vacation and Sick Leave)

Village employees are not allowed to accumulate vacation and sick pay and therefore no accumulated amount is recorded in the financial statements.

Post-employment Benefits

The Village provides no post-employment benefits to past employees.

Fund Equity

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

Encumbrances

Encumbrances involving the current recognition of purchase orders, contracts and other commitments for future expenditures are not recorded.

Note 2 – Budgets and Budgetary Accounting

The following procedures are followed in establishing the budgetary data reflected in these general purpose financial statements:

1. Prior to the beginning of the fiscal year, the proposed budget for each budgetary fund is submitted to the Village Council for consideration.
2. The proposed budgets include expenditures as well as the methods of financing them.
3. Public hearings are held to obtain taxpayer comments.
4. The budgets are adopted at the activity level by a majority vote of the Village Council.
5. The budgets are adopted on the modified accrual basis of accounting.
6. The originally adopted budgets can be amended during the year only by a majority vote of the Village Council.

VILLAGE OF EASTLAKE
Manistee County, Michigan

NOTES TO FINANCIAL STATEMENTS

June 30, 2006

Note 2 – Budgets and Budgetary Accounting (cont.)

7. The adopted budgets are used as a management control device during the year for all budgetary funds.
8. Budget appropriations lapse at the end of each fiscal year.
9. The budgeted amounts shown in these general purpose financial statements are the originally adopted budgets with all amendments that were approved by the Village Council during the fiscal year.

Note 3 – Deposits and Investments

Michigan Compiled Laws, Section 129.91, authorizes the Village to deposit and invest in the accounts of federally insured banks, credit unions, and savings and loan associations; bonds, securities and other direct obligations of the United States, or any agency or instrumentality of the United States; United States government or federal agency obligation repurchase agreements; banker's acceptance of United States banks; commercial paper rated within the two highest classifications, which mature not more than 270 days after the date purchase; obligations of the State of Michigan or its political subdivisions which are rated as investment grade; and mutual funds composed of investment vehicles which are legal for direct investment by local units of government in Michigan. Financial institutions eligible for deposit of public funds must maintain an office in Michigan.

The Village Council has designated one bank for the deposit of Village funds. The investment policy adopted by the board in accordance with Public Act 196 of 1997 has authorized investment in all investments authorized by state law as listed above.

The Village's deposits and investments are in accordance with statutory authority.

The Governmental Accounting Standards Board Statement No. 3, risk disclosures for the cash deposits are as follows:

	<u>Carrying Amounts</u>
Total Deposits	<u>265 542 39</u>

Amounts in the bank balances are without considering deposits in transit or uncleared checks.

	<u>Bank Balances</u>
Insured (FDIC)	192 703 02
Uninsured and Uncollateralized	<u>74 736 28</u>
Total Deposits	<u>267 439 30</u>

The Village of Eastlake did not have any investments as of June 30, 2006.

VILLAGE OF EASTLAKE
Manistee County, Michigan

NOTES TO FINANCIAL STATEMENTS
June 30, 2006

Note 4 – Capital Assets

Capital asset activity of the Village's Governmental and Business type activities for the current year was as follows:

	Balance 7/1/05	Additions	Deletions	Balance 6/30/06
<u>Governmental Activities:</u>				
Land	189 172 45	-	-	189 172 45
Buildings	19 843 27	-	-	19 843 27
Equipment	186 427 00	140 615 87	-	327 042 87
Total	395 442 72	140 615 87	-	536 058 59
Accumulated Depreciation	(166 412 27)	(32 011 92)	-	(198 424 19)
Net Governmental Capital Assets	229 030 45	108 603 95	-	337 634 40
<u>Business Type Activities:</u>				
Park and Launch	28 720 98	-	-	28 720 98
Accumulated Depreciation	(19 627 00)	(1 853 00)	-	(21 480 00)
Net Business Type Capital Assets	9 093 98	(1 853 00)	-	7 240 98

Note 5 – Deferred Compensation Plan

The Village does not have a deferred compensation plan.

Note 6 – Retirement Plan

The Village does not have a retirement plan.

Note 7 – Risk Management

The Village is exposed to various risks of loss related to property loss, torts, errors, omissions, and employee injuries (workers' compensation). The Village has purchased commercial insurance for property loss, torts and workers' compensation claims. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in any of the past three fiscal years.

Note 8 – Changes in Long-Term Debt

	Balance 7/1/05	Additions	Deletions	Balance 6/30/06
Note payable- fire truck	-	110 051 87	13 967 17	96 084 70
Total	-	110 051 87	13 967 17	96 084 70

VILLAGE OF EASTLAKE
Manistee County, Michigan

NOTES TO FINANCIAL STATEMENTS
June 30, 2006

Note 9 – Note Payable- Fire Truck

On May 2, 2006, the Village obtained a loan in the amount of \$110,051.87 to finance a 2006 Sterling Truck. The loan is repayable in ten annual payments in the amount of \$13,967.17, including interest at the rate of 5.74% per annum. As of June 30, 2006, the principal balance outstanding was \$96,084.70.

<u>Due Date</u>	<u>Total</u>	<u>Interest</u>	<u>Principal</u>
5/2/2007	\$13 967 17	\$5 515 26	\$8 451 90
5/2/2008	13 967 17	5 030 12	8 937 04
5/2/2009	13 967 17	4 517 14	9 450 03
5/2/2010	13 967 17	3 974 70	9 992 46
5/2/2011	13 967 17	3 401 14	10 566 03
5/2/2012	13 967 17	2 794 65	11 172 52
5/2/2013	13 967 17	2 153 35	11 813 82
5/2/2014	13 967 17	1 475 23	12 491 93
5/2/2015	13 967 17	758 19	13 208 97
Totals	<u>\$125 704 48</u>	<u>\$29 619 78</u>	<u>\$96 084 70</u>

Note 10 – Budget Variances

For the fiscal year ended June 30, 2006, Village expenditures exceeded the budgeted amounts in one activity as follows:

	<u>Total Budget</u>	<u>Total Expenditures</u>	<u>Excess Expenditures</u>
General Fund Activity:			
Village council	3 200 00	3 270 00	70 00
Fire protection	8 500 00	15 590 31	7 090 31
Department of Public Works	22 000 00	32 686 59	10 686 59
Street lighting	7 400 00	7 572 73	172 73
Highways and streets	-	18 902 43	18 902 43
Insurance	5 000 00	16 882 79	11 882 79
Payroll taxes	3 500 00	5 408 37	1 908 37
Capital outlay	2 000 00	140 615 87	138 615 87
Debt service	-	13 967 17	13 967 17
Major Street Fund Activity:			
Highways and streets	25 150 00	64 435 91	39 285 91
Transfers to Local Street Fund	-	9 163 82	9 163 82
Local Street Fund Activity:			
Highways and streets	19 350 00	25 652 61	6 302 61

Note 11 – Transfers In and Transfers Out

For the fiscal year ended June 30, 2006, the Village made the following interfund transfers:

<u>Fund</u>	<u>Transfers In</u>	<u>Fund</u>	<u>Transfers Out</u>
Local Street	<u>9 163 82</u>	Major Street	<u>9 163 82</u>
Total	<u>9 163 82</u>	Total	<u>9 163 82</u>

VILLAGE OF EASTLAKE
Manistee County, Michigan

NOTES TO FINANCIAL STATEMENTS
June 30, 2006

Note 12 – Building Permits

The Village of Eastlake does not issue building permits. Building permits are issued by the State of Michigan.

Note 13 – Interfund Receivables and Payables

As of June 30, 2006, the Village of Eastlake had the following interfund receivables and payables:

<u>Fund</u>	<u>Interfund Receivable</u>	<u>Fund</u>	<u>Interfund Payable</u>
Local Street	1 761 07	Major Street	1 761 07
General	<u>10 424 60</u>	Park and Launch	<u>10 424 60</u>
Total	<u><u>12 185 67</u></u>	Total	<u><u>12 185 67</u></u>

VILLAGE OF EASTLAKE
Manistee County, Michigan

BUDGETARY COMPARISON SCHEDULE – GENERAL FUND
Year ended June 30, 2006

	Original Budget	Final Budget	Actual	Variance with Final Budget Over (Under)
Revenues:				
Property taxes	30 000 00	30 000 00	35 434 05	5 434 05
Permits	435 00	435 00	313 00	(122 00)
State revenue sharing	36 000 00	36 000 00	41 316 25	5 316 25
Charges for services	20 000 00	20 000 00	25 263 45	5 263 45
Rent	1 000 00	1 000 00	1 025 00	25 00
Interest	1 000 00	1 000 00	3 418 09	2 418 09
Miscellaneous	5 200 00	5 200 00	23 923 93	18 723 93
Total revenues	<u>93 635 00</u>	<u>93 635 00</u>	<u>130 693 77</u>	<u>37 058 77</u>
Expenditures:				
Legislative:				
Village Council	3 200 00	3 200 00	3 270 00	70 00
General government:				
President	2 900 00	2 900 00	2 860 00	(40 00)
Elections	1 000 00	1 000 00	596 98	(403 02)
Clerk	200 00	200 00	200 00	-
Treasurer	400 00	400 00	400 00	-
Village hall and grounds	28 200 00	28 200 00	21 168 10	(7 031 90)
Public safety:				
Fire protection	8 500 00	8 500 00	15 590 31	7 090 31
Liquor law enforcement	385 00	385 00	384 80	(20)
Public works:				
Department of Public Works	22 000 00	22 000 00	32 686 59	10 686 59
Street lighting	7 400 00	7 400 00	7 572 73	172 73
Highways and streets	-	-	18 902 43	18 902 43
Sanitation	3 500 00	3 500 00	3 452 62	(47 38)
Other:				
Insurance	5 000 00	5 000 00	16 882 79	11 882 79
Payroll taxes	3 500 00	3 500 00	5 408 37	1 908 37
Capital outlay	2 000 00	2 000 00	140 615 87	138 615 87
Debt service	-	-	13 967 17	13 967 17
Total expenditures	<u>88 185 00</u>	<u>88 185 00</u>	<u>283 958 76</u>	<u>195 767 76</u>
Excess of revenues over expenditures	<u>5 450 00</u>	<u>5 450 00</u>	<u>(153 264 99)</u>	<u>(158 714 99)</u>
Other financing sources (uses):				
Loan proceeds	-	-	110 051 87	110 051 87
Total other financing sources (uses)	<u>-</u>	<u>-</u>	<u>110 051 87</u>	<u>110 051 87</u>
Excess (deficiency) of revenues and other sources over expenditures and other uses	<u>5 450 00</u>	<u>5 450 00</u>	<u>(43 213 12)</u>	<u>(48 663 12)</u>
Fund balance, July 1	<u>-</u>	<u>-</u>	<u>197 755 60</u>	<u>197 755 60</u>
Fund Balance, June 30	<u>5 450 00</u>	<u>5 450 00</u>	<u>154 542 48</u>	<u>149 092 48</u>

VILLAGE OF EASTLAKE
Manistee County, Michigan

BUDGETARY COMPARISON SCHEDULE – MAJOR STREET FUND
Year ended June 30, 2006

	Original Budget	Final Budget	Actual	Variance with Final Budget Over (Under)
Revenues:				
State revenue sharing	32 000 00	32 000 00	36 655 28	4 655 28
Interest	<u>100 00</u>	<u>100 00</u>	<u>316 13</u>	<u>216 13</u>
Total revenues	<u>32 100 00</u>	<u>32 100 00</u>	<u>36 971 41</u>	<u>4 871 41</u>
Expenditures:				
Public works:				
Highways and streets	<u>25 150 00</u>	<u>25 150 00</u>	<u>64 435 91</u>	<u>39 285 91</u>
Total expenditures	<u>25 150 00</u>	<u>25 150 00</u>	<u>64 435 91</u>	<u>39 285 91</u>
Excess (deficiency) of revenues over expenditures	<u>6 950 00</u>	<u>6 950 00</u>	<u>(27 464 50)</u>	<u>(34 414 50)</u>
Other financing sources (uses):				
Operating transfers out	<u>-</u>	<u>-</u>	<u>(9 163 82)</u>	<u>(9 163 82)</u>
Total other financing sources (uses)	<u>-</u>	<u>-</u>	<u>(9 163 82)</u>	<u>(9 163 82)</u>
Excess of revenues and other sources over expenditures and other uses	6 950 00	6 950 00	(36 628 32)	(43 578 32)
Fund balance, July 1	<u>-</u>	<u>-</u>	<u>67 817 15</u>	<u>67 817 15</u>
Fund Balance, June 30	<u><u>6 950 00</u></u>	<u><u>6 950 00</u></u>	<u><u>31 188 83</u></u>	<u><u>24 238 83</u></u>

VILLAGE OF EASTLAKE
Manistee County, Michigan

BUDGETARY COMPARISON SCHEDULE – LOCAL STREET FUND
Year ended June 30, 2006

	Original Budget	Final Budget	Actual	Variance with Final Budget Over (Under)
Revenues:				
State revenue sharing	19 350 00	19 350 00	17 057 63	(2 292 37)
Total revenues	19 350 00	19 350 00	17 057 63	(2 292 37)
Expenditures:				
Public works:				
Highways and streets	19 350 00	19 350 00	25 652 61	6 302 61
Total expenditures	19 350 00	19 350 00	25 652 61	6 302 61
Excess (deficiency) of revenues over expenditures	-	-	(8 594 98)	(8 594 98)
Other financing sources (uses):				
Operating transfers in	-	-	9 163 82	9 163 82
Total other financing sources (uses)	-	-	9 163 82	9 163 82
Excess (deficiency) of revenues and other sources over expenditures and other uses	-	-	568 84	568 84
Fund balance, July 1	-	-	56 206 38	56 206 38
Fund Balance, June 30	-	-	56 775 22	56 775 22

VILLAGE OF EASTLAKE
Manistee County, Michigan

GENERAL FUND EXPENDITURES BY DETAILED ACCOUNT

Year ended June 30, 2006

Village Council:	
Wages	<u>3 270 00</u>
President:	
Wages	460 00
Transportation	<u>2 400 00</u>
	<u>2 860 00</u>
Elections:	
Wages	294 25
Supplies	<u>302 73</u>
	<u>596 98</u>
Clerk:	
Salary	<u>200 00</u>
Treasurer:	
Salary	<u>400 00</u>
Village hall and grounds:	
Wages	8 595 60
Professional services	3 278 81
Supplies	3 148 50
Printing and publishing	210 84
Utilities	4 277 58
Repairs and maintenance	<u>1 656 77</u>
	<u>21 168 10</u>
Fire protection:	
Wages	1 582 50
Operating supplies	4 852 32
Utilities	817 52
Insurance	4 143 96
Repairs and maintenance	<u>4 194 01</u>
	<u>15 590 31</u>
Liquor law enforcement:	
Wages	<u>384 80</u>
Department of Public Works:	
Wages	18 195 50
Operating supplies	7 368 38
Vehicle operating expenses	3 939 41
Utilities	2 064 14
Repairs and maintenance	<u>1 119 16</u>
	<u>32 686 59</u>
Street lighting:	
Utilities	<u>7 572 73</u>
Highways and streets	<u>18 902 43</u>
Sanitation:	
Contractual	<u>3 452 62</u>
Insurance	<u>16 882 79</u>
Payroll taxes	<u>5 408 37</u>
Capital outlay	<u>30 564 00</u>
Debt service	<u>13 967 17</u>
Total Expenditures	<u>173 906 89</u>

CAMPBELL, KUSTERER & CO., P.C.

CERTIFIED PUBLIC ACCOUNTANTS

MARK J. CAMPBELL, CPA
KENNETH P. KUSTERER, CPA

512 N. LINCOLN AVE. - SUITE 100
P.O. BOX 686
BAY CITY, MICHIGAN 48707

TEL (989) 894-1040
FAX (989) 894-5494

AUDIT COMMUNICATION AND REPORT OF COMMENTS AND RECOMMENDATIONS

October 16, 2006

To the Village Council
Village of Eastlake
Manistee County, Michigan

We have audited the financial statements of the Village of Eastlake for the year ended June 30, 2006. As required by auditing standards generally accepted in the United States, the independent auditor is required to make several communications to the governing body having oversight responsibility for the audit. The purpose of this communication is to provide you with additional information regarding the scope and results of our audit that may assist you with your oversight responsibilities of the financial reporting process for which management is responsible.

AUDITOR'S RESPONSIBILITY UNDER AUDITING STANDARDS GENERALLY ACCEPTED IN THE UNITED STATES

We conducted our audit of the financial statements of the Village of Eastlake in accordance with auditing standards generally accepted in the United States. The following paragraph explains our responsibilities under those standards.

Management has the responsibility for adopting sound accounting policies, for maintaining an adequate and effective system of accounts, for the safeguarding of assets, and for devising an internal control structure that will, among other things, help assure the proper recording of transactions. The transactions that should be reflected in the accounts and in the financial statements are matters within the direct knowledge and control of management. Our knowledge of such transactions is limited to that acquired through our audit. Accordingly, the fairness of representations made through the financial statements is an implicit and integral part of management's accounts and records. However, our responsibility for the financial statements is confined to the expression of an opinion on them. The financial statements remain the responsibility of management.

The concept of materiality is inherent in the work of an independent auditor. An auditor places greater emphasis on those items that have, on a relative basis, more importance to the financial statements and greater possibilities of material error than those items of lesser importance or those in which the possibility of material error is remote.

For this purpose, materiality has been defined as "the magnitude of an omission or misstatement of accounting information that, in light of surrounding circumstances, makes it probable that the judgment of a reasonable person relying on the information would have been changed or influenced by the omission or misstatement."

An independent auditor's objective in an audit is to obtain sufficient competent evidential matter to provide a reasonable basis for forming an opinion on the financial statements. In doing so, the auditor must work within economic limits; the opinion, to be economically useful, must be formed within a reasonable length of time and at reasonable cost. That is why an auditor's work is based on selected tests rather than an attempt to verify all transactions. Since evidence is examined on a test basis only, an audit provides only reasonable assurance, rather than absolute assurance, that financial statements are free of material misstatement. Thus, there is a risk that audited financial statements may contain undiscovered material errors or fraud. The existence of that risk is implicit in the phrase in the audit report, "in our opinion."

To the Village Council
Village of Eastlake
Manistee County, Michigan

In the audit process, we gain an understanding of the internal control structure of an entity for the purpose of assisting in determining the nature, timing, and extent of audit testing. Our understanding is obtained by inquiry of management, testing transactions, and observation and review of documents and records. The amount of work done is not sufficient to provide a basis for an opinion on the adequacy of the internal control structure.

SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies are described in Note 1 to the financial statements.

OTHER COMMUNICATIONS

Auditing standards call for us to inform you of other significant issues such as, but not limited to, 1) Accounting estimates that are particularly sensitive because of their significance to the financial statements or because of the possibility that future events affecting them may differ markedly from management's current judgments; 2) Significant audit adjustments that may not have been detected except through the auditing procedures we performed; 3) Disagreements with management regarding the scope of the audit or application of accounting principles; 4) Consultation with other accountants; 5) Major issues discussed with management prior to retention; and 6) Difficulties encountered in performing the audit.

We have no significant issues, regarding these matters, to report to you at this time. Audit adjustments were minimal, and are available to review.

COMMENTS AND RECOMMENDATION REGARDING INTERNAL CONTROLS/ COMPLIANCE/ EFFICIENCY

Our procedures disclosed the following conditions that we would like to bring to your attention:

SEGREGATION OF DUTIES

A separation of duties between persons who authorize transactions and persons who have control over the related assets does not always exist.

The least desirable accounting system is one in which an employee is responsible for executing the transaction and then recording the transaction from its origin to its ultimate posting in the General Ledger. This increases the likelihood that intentional or unintentional errors will go undetected. In most cases, adequate segregation of duties substantially increases control over errors without duplication of effort.

We understand that due to the size of needed staff, a proper segregation of duties may be impractical and the "cost to benefit" relationship may not justify the addition of accounting staff to accomplish the desired segregation.

These conditions were considered in determining the nature, timing and extent of the audit tests to be applied in our audit of the Village's financial statements and this communication of these matters does not affect our report on the Village's financial statements, dated June 30, 2006.

SUMMARY

We welcome any questions you may have regarding the foregoing comments and we would be happy to discuss any of these or other questions that you might have at your convenience.

Sincerely,

Campbell, Kusterer & Co., P.C.
CAMPBELL, KUSTERER & CO., P.C.
Certified Public Accountants